

Mr Borden

CA1  
Z1  
57E22

CC-29-1



3 1761 12063236 9

# ROYAL COMMISSION ON ENERGY

*Submission of*

Honourable E. C. Manning  
Premier of Alberta

*Concerning*

NATURAL GAS

CALGARY, ALBERTA

APRIL 29, 1958





Mr. Chairman and Commissioners:

May I at the outset express my appreciation for this opportunity to present to you the views of the Government of Alberta with respect to the development and utilization of the natural gas resources of this province.

## ROYAL COMMISSION

### ON ENERGY

### SUBMISSION

of

HONOURABLE E. C. MANNING

PREMIER OF ALBERTA

### CONCERNING

### NATURAL GAS

Calgary, Alberta.  
April 29, 1958.





Mr. Chairman and Commissioners:

May I at the outset express my appreciation for this opportunity to present to you the views of the Government of Alberta with respect to the development and utilization of the natural gas resources of this province.

As a background to the observations and recommendations I would like to make, may I outline briefly the position and policy to which the Government of Alberta has adhered consistently since the production of natural gas became an important factor in our economy. We take the position that our first responsibility is to encourage under a system of private enterprise the orderly and efficient development of our oil and gas resources under sound engineering and conservation practices.

In the disposition of gas, our policy has been and will continue to be to ensure an adequate supply to meet the present and future requirements of Alberta before we approve export to markets outside the province. To this end, the Oil and Gas Resources Preservation Acts of 1949 and 1956 were enacted and the Oil and Gas Conservation Board is charged with the responsibility of determining the quantity of gas necessary to meet the present and future requirements of the province and to approve the export only of that gas which is surplus to those requirements.

We concur with the generally accepted national policy that other Canadian markets, within the range of economic feasibility, should have first priority with respect to gas found surplus to the needs of our province. We have, furthermore, consistently held that gas surplus to Alberta's

Digitized by the Internet Archive  
in 2024 with funding from  
University of Toronto

<https://archive.org/details/31761120632369>



requirements, which cannot reasonably be supplied to other Canadian markets due to economic or geographic considerations, should be approved for export to acceptable markets in the United States.

In considering the interests of the people of Alberta, it must be remembered that they occupy a dual position. They are the owners of over 90% of our gas resources and as owners they have a direct interest in seeing that incentive and orderly development are maintained, that proper conservation measures are practised and that a fair and equitable price is paid for the gas produced. As consumers, they are concerned with the adequacy of supply to meet their present and future requirements, with the provision of facilities necessary to bring gas within the economic reach of the largest possible number of Alberta communities and with the matter of price to the ultimate consumer.

In the early years of gas development, the major public concern centred around the adequacy of supply to meet Alberta's present and future requirements. The proven and potential reserves of the province are now such that no justifiable reason remains for concern as to the adequacy of supply to meet provincial consumption.

The Government and the Oil and Gas Conservation Board have, as a matter of policy, retained for provincial use a supply of gas sufficient to meet both annual and peak demand for a 30-year period. Computations of the reserves necessary for this purpose have given some weight to future discoveries





indicated by development trends. With firmly established trends related to wild cat wells drilled over a period of years, progressively more weight can be given to future gas discoveries to meet Alberta's future requirements without in any way diminishing the security to which the people of the province are entitled in the matter of an assured supply adequate to meet their future requirements.

Evidence already submitted to your Commission at previous hearings with respect to proven reserves and development trends has made clear the fact that Alberta will have vast quantities of natural gas over and above provincial requirements that properly should be made available for markets outside the province.

(3) In recent months, the focus of public concern has shifted from adequacy of supply to the matter of consumer price. It is only fair to say that the gas price structure, which has prevailed in this province until recently, has been unrealistic in that it has borne little relationship to the actual energy or fuel value of gas as compared with other fuels or to the price Alberta gas could command if offered elsewhere in a competitive market. The increased volume of natural gas now consumed in the province has necessitated the expansion and extension of gathering and distribution facilities, thereby interjecting additional costs into the domestic price. At the same time, competitive bidding for gas supplies for markets outside the province has resulted in new gas purchase contracts at increased well head prices.





While adjustments in the gas price structure within the province are inevitable and are warranted to the degree that they result from the actual increased costs involved in producing and transporting the product, the people of Alberta, as the owners of the gas and living in close proximity to vast sources of supply, justifiably feel they are entitled to a preferential position with respect to consumer prices within the province. The Government of Alberta concurs in this viewpoint.

Having regard to these circumstances, the subject matter of this submission can be divided into two parts:

- (1) Gas requirements within Alberta and problems related thereto, and
- (2) Gas which is surplus to Alberta's requirements and available for markets outside the province.

It is recognized that problems relating to the gas requirements of Alberta, being matters wholly within the legislative jurisdiction of the province, properly are the responsibility of the Provincial Government and must be resolved by the Government in co-operation with the industry and the communities concerned.

To adequately ensure future provincial requirements and to safeguard the interests of the owners, producers and consumers of gas within the province, the Government believes that a policy of integrating the gas requirements of Alberta communities with those of companies seeking permission to remove gas from the province together with the integration of





all major sources of supply would be beneficial to Alberta consumers and producers alike and would resolve many of the problems arising from the frequently conflicting requirements of local as compared to export markets.

While a large amount of industry has been developed in Alberta during the last decade, a substantial portion of the province's total gas requirements is for domestic and commercial consumption. Due to the severity of Alberta winters, the ratio of winter to summer heating requirements is high which results in a low load factor market. On the other hand, a large portion of the reserves available to supply Alberta markets are from oil fields and from wet and sour gas fields and present indications are that the ratio of wet and sour gas reserves to dry gas reserves will increase. These wet and sour gas reserves must be processed and the high capital and operating costs of processing plants require that they be operated at a high load factor to keep the cost per MCF of residue gas within reasonable limits. It is necessary, therefore, to make the maximum use of dry gas and storage fields for peak load purposes.

There is also a substantial difference in the low load factor characteristics of the markets for natural gas in Alberta and the high load factors required for the economic operation of large capacity long distance export transmission lines.

The integration of Alberta market requirements with export market requirements through a provincial network of gathering lines interconnecting oil field gas and wet gas





fields requiring high load factor operation and dry gas and storage fields suitable for peak load requirements would permit the most efficient use of each type of gas supply when co-ordinated with the combined low load and high load factor characteristics of local and export markets.

To this end, the Government regards as a necessity the expansion of the facilities of the Alberta Gas Trunk Line Company Limited transmission system into a province wide grid system of main gathering and transmission lines linking together all major gas producing areas of the province. It was with this ultimate objective in mind that the Alberta Gas Trunk Line Company was established initially by special statute of the Provincial Legislature. In the Government's opinion, its facilities must be expanded as quickly as it is feasible to do so until the above objective is attained.

The purpose and necessity of this objective is apparent. By linking together the major gas producing areas of the province, many of the problems associated with the dedication of individual fields to specific markets will be resolved. From the standpoint of supplying Alberta communities with their present and future requirements, the province wide grid system would have obvious advantages. The aggregate supply of gas available to the facilities of the grid system would assure to all communities, large or small, an adequate source of supply for both present and future requirements. The main transmission lines of the grid system could be tapped at any convenient point by utility companies serving





Alberta communities and the particular producing area from which the gas originated would be of little or no importance to the local consumers. A province wide gathering system, furthermore, would make possible the necessary integration between wet and dry gas fields. This, as indicated, is an important factor in that wet gas must be processed and the processing plants must, of necessity, be operated at a reasonably uniform throughput whereas withdrawals from dry gas fields may be fluctuated to meet seasonal and peak demands. The integration of these two categories of supply sources would permit the maximum degree of flexibility and assure the most efficient use of each of the two sources of supply.

As already stated, a further essential requirement, in the opinion of the Government, is the integration of export and domestic market demand. Here again the advantages which would accrue from such integration are apparent. If gas supplies for both local and export markets were provided for in the purchase contracts with producers and the aggregate supply for both purposes was fed into the provincial grid system as an integrated supply, the export company would draw the amount of gas assigned to it for export (and for which it had contracted with producers) from the grid system at a point of delivery at the provincial boundary. The Alberta markets participating in the integrated supply would draw their share from the grid system at the nearest convenient point to the community to be served. Such an arrangement would protect Alberta consumers against the disadvantages





they might suffer if gas fields in close proximity to large consumer areas were contracted wholly to export markets making it necessary for these communities to seek other sources of supply in more remote areas where transportation costs to the community to be served would be substantially higher.

The integration of export and domestic requirements also would benefit Alberta communities by enabling them to take advantage of the lower transportation costs which would be possible by reason of larger transmission lines with greater throughput. In the opinion of the Government, it would be reasonable for gas drawn from the grid system for export markets to bear the greater portion of total transmission costs within the grid system, thereby reducing costs to Alberta communities and thus providing Alberta consumers with an advantage equal to, or greater than, they could obtain by a specific local source of supply being dedicated to their present and future requirements.

Under this arrangement, no Alberta community would be put at a price disadvantage by reason of the gas from any one source of supply being contracted entirely for an export market. Such integration of local and export market requirements also would help solve the difficult problem created by dedicating specific gas fields as reserves to meet Alberta's future requirements which will not need to be met for many years. If gas fields are so dedicated and delivery is not required for 15 or 20 years, either the producer is deprived of income pending the commencement of delivery or the community



obtaining the gas is required to pay in advance for the gas in place which necessitates adding into the current rate base the cost of a future gas supply which will not be drawn on for many years.

Under a program of integration where gas from producing areas would be contracted simultaneously for both local and export markets, delivery could commence without delay because the field would be supplying the integrated requirements instead of being immobilized as a future source of supply for one specific market.

Many problems will be involved in working out a satisfactory integrated program but the Government does not believe these problems are insurmountable.

In our opinion, there are several ways in which this objective can be attained. The most desirable procedure would be by way of negotiated agreements between producing companies, utility companies supplying Alberta communities, and companies interested in obtaining gas for markets outside the province. The Government proposes to seek, and is confident it will receive, the full co-operation of all these groups in an endeavour to arrive at a mutually acceptable arrangement that will achieve the degree of integration the Government considers essential.

Another method of attaining this objective would be for the Oil and Gas Conservation Board to require such integration as a condition of any permit issued approving the removal of a designated quantity of gas from the province to supply outside markets.





Still another alternate procedure, which has been suggested and is being studied, is the establishment of a central provincial purchasing and sales agency to which all producers in the province would be required to sell their gas. Companies having gas under contract at the present time, with the possible exception of local utility companies, would be required to assign their contracts to the agency. The agency would enter into contracts for resale to utility companies supplying Alberta consumers and to export companies taking delivery at the provincial border. The purchasing and sales agency, in determining the price to be charged utility companies serving Alberta communities, could:

- (a) apply a straight differential in the field price and/or
- (b) provide for a differential in transportation costs.

Under this arrangement, gas approved for export would be required to absorb any difference in well head price plus any differential in transportation costs.

As I already have indicated, these matters are internal problems coming within the jurisdiction of the province and which must, and I may say, will be resolved by the Provincial Government in consultation with all the interests involved. Because they are exclusively in the field of provincial jurisdiction, they are not matters in which the Federal Government should, or would wish, to intervene but I have outlined our views on these problems in order that your Commission might be fully informed as to our provincial intentions in the hope that this may be of some help to you





in arriving at your conclusions and recommendations in respect to those matters relating to our gas resources which rightly come under federal jurisdiction and responsibility.

Turning to the second phase of the subject under consideration, namely, the disposition of gas which is surplus to Alberta's requirements, I already have indicated our general concurrence with the federal policy that such gas should first be available to other Canadian markets as far as geographic factors and sound, economic principles make the supply of such markets feasible. This means, in effect, that other Canadian markets should be given priority over foreign markets but only under terms and condition which are fair and equitable to all concerned. We cannot concur in any policy that arbitrarily would restrict Alberta gas to Canadian markets at the expense of the producing companies which incur the risk and cost of development or at the expense of the people of Alberta who collectively are the owners of the gas. Such a policy, in addition to being manifestly unfair, would be contrary to both the provincial and national interests in that it would create a set of circumstances under which there might be insufficient incentive to ensure an aggressive program of continuous exploration and development. In short, other Canadian markets desiring to obtain Alberta gas should have the first opportunity to do so provided the circumstances enable them to contract for such gas on terms which are fair and reasonable and comparable to those offered by other available markets.



I have further indicated that in our opinion gas surplus to Alberta's requirements and to other Canadian markets lying within the range of economic feasibility, as defined above, should be made available to acceptable markets in the United States.

I understand that your Commission has requested some producers to express their views as to a workable formula which might be devised to protect the reasonable demands of the Canadian market while at the same time permitting gas, which is surplus to Canadian requirements, to be exported to the United States. May I assure you that if your Commission would like the Government of Alberta to make any further submission with regard to any formula suggested, we will be most happy to do so.

It is recognized that once natural gas leaves the province in which it is produced and enters the field of interprovincial or international trade it becomes a commodity subject to federal jurisdiction and responsibility. Having regard to this fact, the Government of Alberta respectfully suggests that your Commission should recommend the establishment of a National Energy Board with restricted but clearly defined powers with respect to the transmission and marketing of natural gas in the fields of interprovincial and international trade.

We would recommend that the National Energy Board be assigned the administration of the Pipe Lines Act and the Exportation of Power and Fluids and Importation of Gas Act. It is recognized that certain amendments to these statutes





may be desirable and necessary. An Energy Board, in our opinion, should have jurisdiction over:

- (a) the granting of permits for the construction of inter-provincial pipe lines,
- (b) the earnings of interprovincial pipe line companies,
- (c) the conditions under which an interprovincial pipe line company might be declared a common carrier,
- (d) the regulation of interruptible sales of gas supplied through interprovincial pipe lines to ensure that such sales are not adverse to the public interest.

The other major functions of the National Energy Board, in our opinion, should be:

- (1) to determine in collaboration with provincial boards, such as the Oil and Gas Conservation Board of Alberta, the Canadian markets which it is economically feasible and in the public interest to supply with Canadian gas.
- (2) to determine what gas is surplus to the requirements of such Canadian markets and to approve the export of such gas to foreign markets.
- (3) to review all export sales contracts which establish gas prices at the international boundary to ensure that no Canadian gas, entering the United States, is sold at the point of entry at a price which unjustly discriminates against Canadian consumers having regard to load factor and other pertinent circumstances.





It is of equal importance that the powers vested in a National Energy Board should in no case infringe on the jurisdiction of the Provinces and/or on the powers and duties which have been or may be assigned by Provincial Legislatures to provincial boards, such as the Alberta Oil and Gas Conservation Board and the Board of Public Utility Commissioners.

Without attempting to particularize unduly, a National Energy Board should not be empowered to interfere in any way in such fields as:

- (a) the regulation or control of production,
- (b) the regulation or control of well head or field prices,
- (c) the regulation or control of the transportation of gas or oil within the province, including the regulation and control of transportation rates and charges,
- (d) the regulation or control of ultimate consumer prices.

Whenever the public interest requires regulation of these matters, such regulation should be exercised exclusively by provincial boards under the jurisdiction of the Legislature of the province concerned.

At a later date, I would appreciate the opportunity of filing with your Commission a brief setting out our views as to the broader and more general functions which, in our opinion, the National Energy Board should perform as distinguished from the particular aspects relating to natural gas to which I have referred specifically in this submission.

All of which is respectfully submitted.









